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SUBJECT: KAZAKHSTAN SEEKS TO BE COMPETITIVE IN SCIENCE AND TECHNOLOGY

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11. SUMMARY: During the annual Public Roundtable on Collaboration in Science and Technology, participants heard that the development of science is one of Kazakhstan's most important priorities, and the government plans to increase the government budget allocated to scientific research and development (R&D) by 30% over the current level. Kazakhstan recognizes that it must have good scientific cooperation with other countries, such as the United States, Europe, and Japan, if it is to become an international leader in science and R&D. The recently established Kazakhstan National Medical Holding company claims it can serve as a model for health service delivery and successful restructuring of the health care systems inherited from the former Soviet Union. The New University of Astana will establish three new science research centers and constitute an entirely new educational system in Kazakhstan and Central Asia, based on the U.S. model, to prepare students for Kazakhstan's social and economic challenges. Properly applied tax incentives can significantly affect R&D, but tax incentives alone will not be sufficient to promote R&D; a country must also have a well-developed scientific infrastructure and a good education system. END SUMMARY.

SCIENCE IS A PRIORITY FOR KAZAKHSTAN

12. The U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI) hosted the annual Public Roundtable on Collaboration in Science and Technology in Astana on February 16, one of five roundtable events conducted to date under the PPEPI umbrella. With USAID funding and American Chamber of Commerce administration, PPEPI's goal is to improve the business environment for foreign and domestic investment and trade through broad-scale economic policy reform. PPEPI promotes policy reform in five priority areas, one of which is science and technology.

13. Deputy Minister of Education and Science Aidar Zhakupov opened the roundtable, calling the development of science one of Kazakhstan's most important priorities. He said the government will raise the level of science education and investment so that scientific research can contribute to Kazakhstan's overall economic development. The government plans to increase funding for scientific research and development (R&D) by 30% over the current

level, to 18.5 billion tenge (approximately \$123 million), or about 1% of GDP. (NOTE: Kazakhstan's GDP based on purchasing power parity for 2008 was approximately \$178 billion. END NOTE.)

14. Zhakupov said Kazakhstan was committed to increasing R&D funding to international levels, ranging from 2-4% of GDP. In addition, Kazakhstan intends to increase grant funding (including for the Bolashak Grant program) to further promote science education in Kazakhstan. He said the government must make the current system of funding science more efficient and eliminate wasteful competition among science funds. The government should also facilitate the commercialization of scientific research, according to Zhakupov, so that ideas can move from the laboratory directly to commercial production. Zhakupov said this will require a sound legal framework, including the protection of intellectual property rights (e.g., patents, trademarks, formulas, etc.).

#### SCIENCE POLICY IN THE UNITED STATES AND KAZAKHSTAN

15. U.S. Civilian Research and Development Foundation (CRDF) Director Kanat Shakenov said Kazakhstan recognizes that it must have strong scientific cooperation with other countries, such as the United States, Europe, and Japan, if it is to become an international leader in science and R&D. In order to advance science, he said, it is "not only desirable, but necessary to seek funding, which includes international funding." He said Kazakhstani scientists should publish their work in international journals in English and conduct scientific research in accordance with international standards so that science and R&D in Kazakhstan can reach an international level. In addition, he said that Kazakhstan needs to develop a more effective distribution of scientific knowledge to scientific and business centers. In particular, he suggested that the government provide assistance to scientific and

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business entities in order to stimulate the development and commercialization of science.

#### NATIONAL MEDICAL HOLDING: A MODEL FOR HEALTH SERVICE DELIVERY

16. Kazakhstan National Medical Holding (NMH) CEO Almaz Sharman said the Kazakhstan government established NMH in June 2008 to revolutionize the national health care system and make it a model in Central Asia for restructuring health care systems inherited from the former Soviet Union. According to Sharman, NMH will introduce international standards of quality, safety, and financial sustainability that are absent in the current system. He said NMH will introduce a market-driven health model that will provide a level of care such that Kazakhstanis will no longer have to go abroad for treatment. NMH manages six health care centers, including the National Research Center for Maternal and Child Health in Kazakhstan. Sharman said that internationally renowned experts will manage all six centers by 2015.

17. Sharman said a number of socio-economic factors affect health care in Kazakhstan, including the gradual ageing of the population, an increase in the cases of infectious diseases, and unequal access to medical services. In addition, as medical costs increase, there is pressure to reduce the length of treatment while maintaining the same level of quality. One concern of medical research, he said, is how to harmonize scientific research with actual practice that can lead to commercialization. Sharman said that medical researchers should follow international standards to ensure that the resulting products are competitive.

#### THE NEW UNIVERSITY OF ASTANA

18. New University of Astana President Aslan Sarinzipov said the New University of Astana expects to open July 1. (NOTE: The New University likely will be renamed Nursultan Nazarbayev University in July. END NOTE.) He said the New University's nine international university partners (including Duke University, Johns Hopkins, Harvard, etc.) will help design and implement a curriculum that will emphasize the scientific, technological, and economic development. According to Sarinzipov, the university will have medical, science, life science, business, and public policy schools, and will also

host three science research centers: a life sciences center, which will conduct research jointly with the leading world scientific centers in the sphere of organ transplantation, artificial heart and lungs, stem cells, and the medicine of longevity; an energy research center dealing with issues of renewable energy sources, physics, and high energy technologies; and an interdisciplinary engineering center that will include laboratory facilities and a design bureau.

¶9. Sarinzipov said the New University will not be just another new university, but it will constitute an entirely new educational system in Kazakhstan and Central Asia. The first year will be devoted to intensive English training, and subsequent courses will be in English, providing the students with an education that meets international standards. He said that 90% of the faculty will be foreign until the university can generate its own trained faculty, but even after that, Sarinzipov believes the university will still retain a high percentage of foreign professors. The university will be based on the U.S. model, with a four-year bachelor's degree, a master's degree, and a Ph.D. He said the curriculum will prepare students to meet Kazakhstan's social and economic challenges. After 5-10 years, he said he hopes the New University will qualify for the international ranking system. Sarinzipov said the anticipated cost of this education will be equal to the cost of going abroad to study at a world class university. (NOTE: Local press reported that the New University will be the most expensive university in Kazakhstan and as expensive as elite universities in Russia, the United States, and the United Kingdom. The annual tuition fee will be \$19,000, which is twice as much as the Moscow Institute of International Relations. END NOTE.)

#### IMPACT OF TAX INCENTIVES ON SCIENTIFIC R&D

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¶10. PriceWaterhouseCoopers Tax Services Director Richard Bergonje said governments have used direct funding as well as grants and subsidies in order to promote and stimulate R&D. Tax incentives are also a key tool that allow direct or incremental deduction of R&D expenses, permit depreciation allowances on laboratories and equipment, and grant tax holidays. According to the OSCE, R&D tax incentives are extremely popular, with 21 of the 31 member countries using them in 2008, up from only 12 in 1998. Bergonje noted that emerging countries such as Brazil, India, Russia, and China are also using tax incentives to stimulate R&D.

¶11. Bergonje referred to the Alatau-IT City (Information Technology City) in Almaty, a Special Economic Zone (SEZ) with tax and customs incentives for information and telecommunication companies working in the park, as an example of the possible use of tax incentives to support R&D in Kazakhstan. Companies registered in the SEZ do not have to pay corporate income tax, property tax, or customs duties. The government also allows companies in the SEZ to depreciate the cost of buildings and equipment. Bergonje said studies demonstrate that properly applied tax incentives can significantly increase R&D investment. However, while Kazakhstan has good tax incentive programs, he said the existing tax code can be improved.

¶12. COMMENT: The PPEPI Science and Technology Working Group finds that its work dovetails closely with Kazakhstan's national priority to improve science research and education in order to stimulate further economic development. Kazakhstan has ambitious goals and one might doubt the extent to which it will achieve them. Nevertheless, the will is there and the government is committed to achieving these goals, since the mandate for change is coming from President Nazarbayev himself. END COMMENT.

HOAGLAND